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Venezuela's parallel dollar market slows to a crawl

BY CASTO OCANDO AND GERARDO REYES

A former banker arrested in Miami this week for allegedly laundering drug money is at the heart of a U.S. government operation to freeze suspect funds that has slowed Venezuela's parallel currency market.

Currency exchange houses in Venezuela have been working at a snail's pace since Wednesday, after accounts were frozen at Rosemont Finance, a Doral-based firm that handles accounts for about 49 currency exchanges and other companies in Venezuela.

A federal grand jury in Massachusetts accused Rosemont founder Rama Vyasulu of laundering about \$900,000 in illegal drug proceeds, according to court records. Vyasulu, who was arrested Wednesday in Miami, allegedly had sent three transfers in January from Massachusetts to an account at Bank of America. The Bank of America account, which was frozen, handled about \$240 million in deposits from tens of currency exchange houses in Venezuela.

Two knowledgeable persons who asked for anonymity because they were not authorized to speak on the case told El Nuevo Herald that Vyasulu's arrest stemmed from an investigation by the U.S. Drug Enforcement Administration.

The freeze on the Bank of America account sparked a shortage of U.S. dollars in Venezuela, leading to a dramatic spike in the dollar's value on the parallel market: 6.8 bolivars per dollar, more than triple the official exchange rate of 2.15 per dollar. President Hugo Chávez set that rate in 2003 as part of currency controls designed to halt the flood of capital out of Venezuela.

Access to U.S. dollars is critical for the flow of trade between the two countries. Venezuelan importers need dollars to pay for their purchases. But if the government does not agree to sell them dollars at the 2.15 rate, they have to go to the parallel market -- currency exchange houses -- to buy dollars at a higher rate. And exporters who are paid in dollars can sell them to the exchange houses at a rate much higher than the official one.

Some exchange houses and currency exchange operators said they were functioning normally and were not affected by the investigation into Rosemont Finance because they maintained accounts in other banks in the United States and Europe.

Despite Chávez's attempts to restrict the trading of currency, several loopholes in exchange regulations have allowed Venezuelans to exchange bolivars for dollars in what is known as the "parallel" or more often "black" market.

Vyasulu, 57, is a former banker who studied administration and business in Mexico and the United States and worked at the Federal Reserve Bank of Atlanta as a regulation and supervision official for various Latin American countries, according to a Rosemont prospectus.

He has also worked in several Venezuelan banks, including Banco de Venezuela Internacional and Banco Caracas, and was corporate vice president of Dresdner Bank Latin America.

Born in India but now a Venezuelan citizen living in Doral, Vyasulu incorporated Rosemont Corp. in Florida in July 2007. He is also the registered agent for six other Florida corporations.

A Rosemont document dated November 2008 said the company handled \$10 billion in transactions during the

preceding year.

In a civil lawsuit he filed in Miami in 2006 against some of his former clients, Vyasulu portrayed himself as an expert consultant in obtaining credits from Eximbank, a U.S. government agency that uses federal funds to finance exports and imports.

Michael Díaz, a Miami lawyer representing five Venezuelan currency exchange houses, told El Nuevo Herald that his clients are innocent victims of the freeze imposed on Rosemont's accounts.

Asked about the money laundering allegations, Díaz said that currency exchanges are vulnerable to infiltration of illegal money. "Sometimes it's not intentional, but the government nevertheless considers it illegal and has the right to freeze it," he said.

In a statement Friday, Rosemont Finance confirmed that it had been notified of the temporary account freeze. The case involves "the individual actions of one person" that affected "a very small number of transactions," the statement said, adding that its officers and employees "have operated in accordance with the law" and that it will defend itself and its agents in court.

Michael Band, a Miami lawyer who represents Rosemont, said, "Given the limited amount of information that the government has disclosed [in the case], I am not in a position to discuss this matter."

The Caracas newsletter Veneconomía meanwhile reported that the accounts freeze had revealed a series of links between several currency exchange operations and the Venezuelan government's oil company, known as PDVSA.

"The majority of the currency exchange houses involved are clients of PDVSA," the newsletter said. The oil company had been rumored to be selling dollars -- earned through oil exports -- on the parallel market, where it likely obtained better than the official rate.

Florida records show that Diego Arnal, former president of Association of Currency Exchange Houses in Venezuela and former director of the Caracas Stock Exchange, is listed as the principal agent for 26 companies registered under the names similar to Rosemont Corp. All 26 were incorporated by Arnal on the same day, Jan. 18, 2008.